

Financing Urban Development

Tamil Nadu Urban Development Fund (TNUDF)

Infrastructure in the South Indian State of Tamil Nadu, one of the most thriving and largest of India's federal states, does not meet the demand of its rising population and rapidly growing economy. Essential services such as water supply, waste water, electricity, roads and public transport are insufficient. Neither state nor municipal budgets can shoulder the necessary investments for infrastructure development. Hence, the majority of infrastructure has to be financed by the financial system and the private sector. However, financing urban infrastructure is deemed too risky and costly for private financial institutions in India. Therefore, support from development banks is necessary to make these investments "bankable" by reducing costs, shouldering some of the risk and developing new financing mechanisms.

The German Federal Ministry for Economic Cooperation and Development (BMZ) through KfW Entwicklungsbank supports Tamil Nadu to mobilize private capital for local urban infrastructure financing and to support capital market development in Tamil Nadu. In particular, KfW strengthens the refinancing capacities of the public Tamil Nadu Urban Development Fund (TNUDF).

The purpose of TNUDF is to improve urban infrastructure of mostly small and medium-sized towns in Tamil Nadu. The project already serves as a model for similar funds in other Indian states.

The Program provides a EUR 65 million loan to finance urban infrastructure investments at the municipal level. In addition, it supports the establishment of a vehicle which will allow municipalities to pool bonds and access funds from the capital market. TNUDF has been established as a public-private partnership fund in 1996 with the Government of Tamil Nadu and three private banks as owners. TNUDF has a track record as innovative intermediary to foster increased participation of capital markets and the private sector in local infrastructure financing.

Results and impacts:

- Qualitative and quantitative improvement of urban infrastructure. For example, by 2012 a further 100 municipalities will benefit from a sewage system supported by TNUDF. Incidences of waterborne diseases have already declined in Tamil Nadu since the establishment of the Fund.
- Implementation of key aspects of the Indian decentralisation policy: strengthening the financial and administrative autonomy of the local governments concerned.
- Promotion of social and environmentally sound municipal infrastructure through newly created public-private partnerships and joint ventures.
- Promotion of follow-up investment and hence local economic growth.
- Further development of the Indian capital market.

Duration: Since 2008

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